

LENOX MUNICIPAL UTILITIES

FINANCIAL STATEMENTS

DECEMBER 31, 2010

LENOX MUNICIPAL UTILITIES
LENOX, IOWA
DECEMBER 31, 2010

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LENOX MUNICIPAL UTILITIES
OFFICIALS
DECEMBER 31, 2010

<u>NAME OF OFFICIAL</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Dennis Bunch	Trustee - Chairman	May 1, 2014
Wayne Haidsiak	Trustee	May 1, 2014
Kathy Arevalo	Trustee	May 1, 2016
Norbert Bradley	Trustee	May 1, 2016
Jake Tripp	Trustee	May 1, 2012
Keith Bennett	Superintendent	-

DEAN M. BROICH, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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Omaha, Nebraska 68144
(402) 829-0121

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Lenox Municipal Utilities
Lenox, Iowa

To the Board of Trustees:

I have audited the accompanying financial statements of the business-type activities of Lenox Municipal Utilities, Lenox, Iowa, a component unit of the City of Lenox, as of and for the year ended December 31, 2010, which collectively comprise Lenox Municipal Utilities basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lenox Municipal Utilities' management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in footnote 1, the financial statements present only the business-type activities of Lenox Municipal Utilities, a component unit of the City of Lenox, Lenox, Iowa, and do not purport to, and do not, present fairly the financial position of the City of Lenox, Lenox, Iowa, and the changes in its financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Lenox Municipal Utilities, Lenox, Iowa, as of December 31, 2010, and the respective changes in the fund's financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not required to be part of the basic financial statements, but is necessary to supplement the basic financial statements according to accounting principles generally accepted in the United States of America. Lenox Municipal Utilities has not presented management's discussion and analysis in these financial statements.

In accordance with *Government Auditing Standards*, I have also issued a report dated February 9, 2011 on my consideration of Lenox Municipal Utility's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lenox Municipal Utilities, Lenox, Iowa's financial statements as a whole. The accompanying supplementary information on pages 25 through 26 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in my audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink, reading "Dean M. Broich". The signature is fluid and cursive, with the first name "Dean" and last name "Broich" clearly legible.

Certified Public Accountant

Omaha, Nebraska
February 9, 2011

LENOX MUNICIPAL UTILITIES
BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

ASSETS

	2010			Combined Memorandum Only
	Electric	Water	Cable	
Current assets:				
Cash	\$ 44,978	\$ 23,555	\$ 42,731	\$ 111,264
Receivables	142,940	48,705	11,516	203,161
Prepaid expenses	13,794	2,406	957	17,157
Inventories	90,323	-	-	90,323
Note receivable - communications	175,000	-	-	175,000
Accrued interest receivable	1,467	-	-	1,467
Total current assets	<u>468,502</u>	<u>74,666</u>	<u>55,204</u>	<u>598,372</u>
Noncurrent assets:				
Investment reserves	892,796	146,349	163,341	1,202,486
Sinking funds - restricted	57,200	52,515	-	109,715
Reserve funds - restricted	60,000	73,000	-	133,000
Deferred compensation - restricted	68,423	31,903	12,256	112,582
Total noncurrent assets	<u>1,078,419</u>	<u>303,767</u>	<u>175,597</u>	<u>1,557,783</u>
Capital assets - net of depreciation	<u>1,744,822</u>	<u>1,269,333</u>	<u>1,353,135</u>	<u>4,367,290</u>
Total assets	<u>\$ 3,291,743</u>	<u>\$ 1,647,766</u>	<u>\$ 1,583,936</u>	<u>\$ 6,523,445</u>

LIABILITIES AND NET ASSETS

Current liabilities:				
Accounts payable - trade	\$ 89,116	\$ 28,712	\$ 41,399	\$ 159,227
Current portion of long-term debt	55,000	43,000	1,335,000	1,433,000
Accrued interest	1,149	2,367	9,255	12,771
Accrued expenses	3,904	657	349	4,910
Customer deposits	22,873	-	-	22,873
Note payable - Electric Fund	-	-	175,000	175,000
Total current liabilities	<u>172,042</u>	<u>74,736</u>	<u>1,561,003</u>	<u>1,807,781</u>
Long-term liabilities:				
Deferred compensation	68,423	31,903	12,256	112,582
Note and bonds payable	120,000	886,000	-	1,006,000
Total long-term liabilities	<u>188,423</u>	<u>917,903</u>	<u>12,256</u>	<u>1,118,582</u>
Net assets:				
Investment in capital assets - net of related debt	1,568,673	337,966	(166,120)	1,740,519
Net assets - restricted	117,200	125,515	-	242,715
Net assets - unrestricted	1,245,405	191,646	176,797	1,613,848
Total net assets	<u>2,931,278</u>	<u>655,127</u>	<u>10,677</u>	<u>3,597,082</u>
Total liabilities and net assets	<u>\$ 3,291,743</u>	<u>\$ 1,647,766</u>	<u>\$ 1,583,936</u>	<u>\$ 6,523,445</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES
BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

ASSETS

	2009			Combined Memorandum Only
	Electric	Water	Cable	
Current assets:				
Cash	\$ 70,154	\$ 3,602	\$ 33,345	\$ 107,101
Receivables	134,978	45,834	7,572	188,384
Prepaid expenses	10,641	4,124	1,732	16,497
Inventories	89,117	-	-	89,117
Total current assets	<u>304,890</u>	<u>53,560</u>	<u>42,649</u>	<u>401,099</u>
Noncurrent assets:				
Investment reserves	816,996	151,116	172,787	1,140,899
Sinking funds - restricted	51,000	48,800	-	99,800
Reserve funds - restricted	60,000	73,000	-	133,000
Deferred compensation - restricted	62,120	29,004	8,790	99,914
Total noncurrent assets	<u>990,116</u>	<u>301,920</u>	<u>181,577</u>	<u>1,473,613</u>
Capital assets - net of depreciation	<u>1,869,721</u>	<u>1,359,052</u>	<u>1,291,736</u>	<u>4,520,509</u>
Total assets	<u>\$ 3,164,727</u>	<u>\$ 1,714,532</u>	<u>\$ 1,515,962</u>	<u>\$ 6,395,221</u>

LIABILITIES AND NET ASSETS

Current liabilities:				
Accounts payable - trade	\$ 82,885	\$ 27,457	\$ 138,286	\$ 248,628
Current portion of long-term debt	55,000	41,000	-	96,000
Accrued interest	1,474	2,472	7,788	11,734
Accrued expenses	3,938	1,512	761	6,211
Customer deposits	22,504	-	-	22,504
Total current liabilities	<u>165,801</u>	<u>72,441</u>	<u>146,835</u>	<u>385,077</u>
Long-term liabilities:				
Deferred compensation	62,120	29,004	8,790	99,914
Note and bonds payable	175,000	929,000	1,335,000	2,439,000
Total long-term liabilities	<u>237,120</u>	<u>958,004</u>	<u>1,343,790</u>	<u>2,538,914</u>
Net assets:				
Investment in capital assets - net of related debt	1,638,247	386,580	(51,052)	1,973,775
Net assets - restricted	111,000	121,800	-	232,800
Net assets - unrestricted	1,012,559	175,707	76,389	1,264,655
Total net assets	<u>2,761,806</u>	<u>684,087</u>	<u>25,337</u>	<u>3,471,230</u>
Total liabilities and net assets	<u>\$ 3,164,727</u>	<u>\$ 1,714,532</u>	<u>\$ 1,515,962</u>	<u>\$ 6,395,221</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			Combined Memorandum Only
	Electric	Water	Cable	
Operating revenues:				
Current use charges	\$ 1,678,363	\$ 649,086	\$ 435,826	\$ 2,763,275
Miscellaneous and rentals	35,457	11,849	-	47,306
Total operating revenues	<u>1,713,820</u>	<u>660,935</u>	<u>435,826</u>	<u>2,810,581</u>
Operating expenses:				
Administrative	151,123	60,759	155,653	367,535
Sales and use taxes	33,902	20,049	13,330	67,281
Payroll and payroll taxes	274,217	125,992	64,298	464,507
Office expense	14,467	4,670	5,618	24,755
Repairs and maintenance	8,117	3,717	95	11,929
Plant expense	888,930	348,212	107,496	1,344,638
Distribution expense	41,828	15,401	-	57,229
Bad debts	2,202	638	1,666	4,506
Depreciation	124,899	89,719	54,138	268,756
Total operating expenses	<u>1,539,685</u>	<u>669,157</u>	<u>402,294</u>	<u>2,611,136</u>
Operating income (loss)	<u>174,135</u>	<u>(8,222)</u>	<u>33,532</u>	<u>199,445</u>
Non-operating revenues/(expenses):				
Interest income	2,880	335	-	3,215
Interest and debt service expense	<u>(7,543)</u>	<u>(28,381)</u>	<u>(48,192)</u>	<u>(84,116)</u>
Total non-operating revenues/(expenses)	<u>(4,663)</u>	<u>(28,046)</u>	<u>(48,192)</u>	<u>(80,901)</u>
Changes in net assets before transfers	169,472	(36,268)	(14,660)	118,544
Transfers from City	<u>-</u>	<u>7,308</u>	<u>-</u>	<u>7,308</u>
Changes in net assets	169,472	(28,960)	(14,660)	125,852
Net assets, beginning of year	<u>2,761,806</u>	<u>684,087</u>	<u>25,337</u>	<u>3,471,230</u>
Net assets, end of year	<u>\$ 2,931,278</u>	<u>\$ 655,127</u>	<u>\$ 10,677</u>	<u>\$ 3,597,082</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2009			Combined Memorandum Only
	Electric	Water	Cable	
Operating revenues:				
Current use charges	\$ 1,477,791	\$ 628,707	\$ 354,389	\$ 2,460,887
Miscellaneous and rentals	37,371	13,159	-	50,530
Total operating revenues	<u>1,515,162</u>	<u>641,866</u>	<u>354,389</u>	<u>2,511,417</u>
Operating expenses:				
Administrative	149,474	64,324	159,697	373,495
Sales and use taxes	33,004	20,641	18,869	72,514
Payroll and payroll taxes	328,198	153,029	58,787	540,014
Office expense	11,890	7,578	7,011	26,479
Repairs and maintenance	29,543	5,493	5,355	40,391
Plant expense	822,782	323,233	108,110	1,254,125
Distribution expense	43,717	27,938	21,134	92,789
Bad debts	3,069	1,824	-	4,893
Depreciation	133,638	89,822	47,631	271,091
Total operating expenses	<u>1,555,315</u>	<u>693,882</u>	<u>426,594</u>	<u>2,675,791</u>
Operating loss	<u>(40,153)</u>	<u>(52,016)</u>	<u>(72,205)</u>	<u>(164,374)</u>
Non-operating revenues/(expenses):				
Interest income	4,966	1,388	1,868	8,222
Interest and debt service expense	<u>(9,395)</u>	<u>(32,078)</u>	<u>(46,750)</u>	<u>(88,223)</u>
Total non-operating revenues/(expenses)	<u>(4,429)</u>	<u>(30,690)</u>	<u>(44,882)</u>	<u>(80,001)</u>
Changes in net assets before transfers	(44,582)	(82,706)	(117,087)	(244,375)
Transfers from City	<u>431</u>	<u>8,373</u>	<u>-</u>	<u>8,804</u>
Changes in net assets	(44,151)	(74,333)	(117,087)	(235,571)
Net assets, beginning of year	<u>2,805,957</u>	<u>758,420</u>	<u>142,424</u>	<u>3,706,801</u>
Net assets, end of year	<u>\$ 2,761,806</u>	<u>\$ 684,087</u>	<u>\$ 25,337</u>	<u>\$ 3,471,230</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			Combined Memorandum Only
	Electric	Water	Cable	
Cash flows from operating activities:				
Cash received from customers	\$ 1,705,858	\$ 658,064	\$ 431,882	\$ 2,795,804
Cash payments to suppliers	(1,139,829)	(451,328)	(380,382)	(1,971,539)
Cash payments for employees, payroll taxes and benefits	(274,217)	(125,992)	(64,298)	(464,507)
Net cash provided (used) by operating activities	291,812	80,744	(12,798)	359,758
Cash flows from noncapital financing activities:				
Transfers from City	-	7,308	-	7,308
Net cash provided from noncapital financing activities	-	7,308	-	7,308
Cash flows from capital and financing activities:				
Payment on principal	(55,000)	(41,000)	-	(96,000)
Proceeds from note payable	-	-	175,000	175,000
Interest paid	(7,868)	(28,486)	(46,725)	(83,079)
Purchase of fixed assets	-	-	(115,537)	(115,537)
Net cash provided (used) for capital and financing activities	(62,868)	(69,486)	12,738	(119,616)
Cash flows from investing activities:				
Purchase of investments	(487,000)	(108,433)	(70,723)	(666,156)
Proceeds from investments	230,000	109,485	80,169	419,654
Interest on investments	2,880	335	-	3,215
Net cash provided (used) by investing activities	(254,120)	1,387	9,446	(243,287)
Net increase (decrease) in cash	(25,176)	19,953	9,386	4,163
Cash - beginning of year	70,154	3,602	33,345	107,101
Cash - end of year	\$ 44,978	\$ 23,555	\$ 42,731	\$ 111,264

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2009			Combined Memorandum Only
	Electric	Water	Cable	
Cash flows from operating activities:				
Cash received from customers	\$ 1,491,941	\$ 644,315	\$ 365,826	\$ 2,502,082
Cash payments to suppliers	(1,402,371)	(452,151)	(194,515)	(2,049,037)
Cash payments for employees, payroll taxes and benefits	(328,198)	(153,029)	(58,787)	(540,014)
Net cash provided (used) by operating activities	(238,628)	39,135	112,524	(86,969)
Cash flows from noncapital financing activities:				
Transfers from City	431	8,373	-	8,804
Net cash provided from noncapital financing activities	431	8,373	-	8,804
Cash flows from capital and financing activities:				
Payment on principal	(50,000)	(37,000)	-	(87,000)
Interest paid	(9,670)	(32,172)	(69,378)	(111,220)
Purchase of fixed assets	-	-	(258,461)	(258,461)
Net cash used for capital and financing activities	(59,670)	(69,172)	(327,839)	(456,681)
Cash flows from investing activities:				
Purchase of investments	(488,839)	(168,178)	(280,652)	(937,669)
Proceeds from investments	763,260	175,536	492,541	1,431,337
Interest on investments	4,966	1,388	1,868	8,222
Net cash provided by investing activities	279,387	8,746	213,757	501,890
Net decrease in cash	(18,480)	(12,918)	(1,558)	(32,956)
Cash - beginning of year	88,634	16,520	34,903	140,057
Cash - end of year	<u>\$ 70,154</u>	<u>\$ 3,602</u>	<u>\$ 33,345</u>	<u>\$ 107,101</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS-CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

SCHEDULE OF NET CASH FROM OPERATING ACTIVITIES

	2010			Combined Memorandum Only
	Electric	Water	Cable	
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 174,135	\$ (8,222)	\$ 33,532	\$ 199,445
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	124,899	89,719	54,138	268,756
Changes in assets and liabilities:				
Receivables	(7,962)	(2,871)	(3,944)	(14,777)
Accrued interest receivable	(1,467)	-	-	(1,467)
Prepaid expenses	(3,153)	1,718	775	(660)
Inventories	(1,206)	-	-	(1,206)
Accounts payable	6,231	1,255	(96,887)	(89,401)
Accrued expenses	(34)	(855)	(412)	(1,301)
Customer deposits	369	-	-	369
Net cash provided (used) by operating activities	<u>\$ 291,812</u>	<u>\$ 80,744</u>	<u>\$ (12,798)</u>	<u>\$ 359,758</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS-CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

SCHEDULE OF NET CASH FROM OPERATING ACTIVITIES

	2009			Combined Memorandum Only
	Electric	Water	Cable	
Reconciliation of operating loss to net cash provided by operating activities				
Operating loss	\$ (40,153)	\$ (52,016)	\$ (72,205)	\$ (164,374)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation	133,638	89,822	47,631	271,091
Changes in assets and liabilities:				
Receivables	(23,221)	2,449	11,437	(9,335)
Prepaid expenses	(2,448)	(963)	(307)	(3,718)
Inventories	13,827	-	-	13,827
Accounts payable	(329,745)	554	126,906	(202,285)
Accrued expenses	3,516	(711)	(938)	1,867
Customer deposits	5,958	-	-	5,958
Net cash provided (used) by operating activities	<u>\$ (238,628)</u>	<u>\$ 39,135</u>	<u>\$ 112,524</u>	<u>\$ (86,969)</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES
STATEMENTS OF BUDGETED AND ACTUAL CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

ELECTRIC FUND

	2010 Original & Final Budgeted	2010 Actual	2009 Actual
Revenues	\$ 1,572,632	\$ 1,706,227	\$ 1,497,899
Expenses	1,494,700	1,545,390	1,879,560
Excess revenues over/(under) expenses from operations	77,932	160,837	(381,661)
Other revenues	5,000	1,413	5,397
Excess revenues over/(under) expenses	<u>\$ 82,932</u>	<u>\$ 162,250</u>	<u>\$ (376,264)</u>

WATER FUND

Revenues	\$ 680,069	\$ 658,064	\$ 644,315
Expenses	720,450	695,419	727,080
Excess revenues under expenses from operations	(40,381)	(37,355)	(82,765)
Other revenues	15,640	7,642	9,761
Excess revenues over/(under) expenses	<u>\$ (24,741)</u>	<u>\$ (29,713)</u>	<u>\$ (73,004)</u>

CABLE FUND

Revenues	\$ 301,796	\$ 431,882	\$ 365,826
Expenses	484,600	547,010	347,683
Excess revenues over/(under) expenses from operations	(182,804)	(115,128)	18,143
Other revenues	101,800	-	1,868
Excess revenues over/(under) expenses	<u>\$ (81,004)</u>	<u>\$ (115,128)</u>	<u>\$ 20,011</u>

COMBINED - (MEMORANDUM ONLY)

Revenues	\$ 2,554,497	\$ 2,796,173	\$ 2,508,040
Expenses	2,699,750	2,787,819	2,954,323
Excess revenues over/(under) expenses from operations	(145,253)	8,354	(446,283)
Other revenues	122,440	9,055	17,026
Excess revenues over/(under) expenses	<u>\$ (22,813)</u>	<u>\$ 17,409</u>	<u>\$ (429,257)</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES
STATEMENTS OF BUDGETED AND ACTUAL CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

ELECTRIC FUND

	2009 Original & Final Budgeted	2009 Actual	2008 Actual
Revenues	\$ 1,624,300	\$ 1,497,899	\$ 1,285,770
Expenses	1,380,250	1,879,560	975,750
Excess revenues over/(under) expenses from operations	244,050	(381,661)	310,020
Other revenues	25,000	5,397	38,381
Excess revenues over/(under) expenses	<u>\$ 269,050</u>	<u>\$ (376,264)</u>	<u>\$ 348,401</u>

WATER FUND

Revenues	\$ 677,402	\$ 644,315	\$ 642,868
Expenses	766,865	727,080	680,734
Excess revenues under expenses from operations	(89,463)	(82,765)	(37,866)
Other revenues	10,000	9,761	11,274
Excess revenues over/(under) expenses	<u>\$ (79,463)</u>	<u>\$ (73,004)</u>	<u>\$ (26,592)</u>

CABLE FUND

Revenues	\$ 418,500	\$ 365,826	\$ 152,581
Expenses	472,850	347,683	227,061
Excess revenues over/(under) expenses from operations	(54,350)	18,143	(74,480)
Other revenues	3,000	1,868	12,519
Excess revenues over/(under) expenses	<u>\$ (51,350)</u>	<u>\$ 20,011</u>	<u>\$ (61,961)</u>

COMBINED - (MEMORANDUM ONLY)

Revenues	\$ 2,720,202	\$ 2,508,040	\$ 2,081,219
Expenses	2,619,965	2,954,323	1,883,545
Excess revenues over/(under) expenses from operations	100,237	(446,283)	197,674
Other revenues	38,000	17,026	62,174
Excess revenues over/(under) expenses	<u>\$ 138,237</u>	<u>\$ (429,257)</u>	<u>\$ 259,848</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

1. Summary of Significant Accounting Policies

The Reporting Entity:

Lenox Municipal Utilities has been identified as a component unit of the City of Lenox, Lenox, Iowa. The Utilities, for financial statement purposes, include all of the funds and account groups relevant to the operation of the electric, water and communication services. Lenox Municipal Utilities provides billing and collection services for the City of Lenox, however those amounts have been eliminated for financial statement purposes. These financial statements do not reflect any activity or transactions of the City of Lenox and do not present consolidated information.

Basis of Accounting and Presentation:

Lenox Municipal Utilities is governed by a Board of Trustees that are appointed by the Mayor of Lenox, Iowa. The Utilities provide electricity, water and communication services to the City of Lenox and the surrounding community. The Utilities operate as enterprise funds which utilize the accrual basis of accounting. The accrual basis of accounting recognizes revenues when earned and expenses when incurred.

Operating revenues generally result from providing services and delivering those services in connection with ongoing operations of supplying electric, water and communication services. Receipts and disbursements not meeting this definition are reported as non-operating revenues.

Lenox Municipal Utilities apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Fund Accounting:

The electric, water and communication funds are operated similar to business enterprises. The intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges. Those costs include depreciation of capital assets and interest expense.

Cash and Cash Equivalents:

For the purpose of the presentation of the statement of cash flows, the electric, water and communication funds do not treat investments, restricted or unrestricted as cash or cash equivalents.

LENOX MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2010

1. Summary of Significant Accounting Policies – continued:

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allowance for Doubtful Accounts:

At December 31, 2010 and 2009, management considered accounts receivable to be fully collectible and, therefore, these financial statements do not contain an allowance for doubtful accounts.

Reclassifications:

Certain amounts or presentations in the December 31, 2009 statements may have been reclassified to conform to the December 31, 2010 presentation. Changes in net assets remained unchanged as a result of any reclassifications.

2. Inventories

Inventories consist mainly of electrical materials and supplies and are valued at lower of cost or market value (first-in, first-out).

3. Deposits and Investments

The Utilities are authorized to invest in interest bearing savings accounts, interest bearing money market accounts, interest bearing checking accounts, obligations of the United States government or its agencies and instrumentalities, certificates of deposit and other evidence of deposit at federally insured Iowa depository institutions approved and secured pursuant to Chapter 453; Iowa Public Agency Investment Trust and certain other investments with prior approval by the board of trustees.

Deposits and investments are stated at cost, which approximates market. Interest on deposits and investments is accrued in the financial statements. The Utility's deposits are entirely covered by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds. Accordingly, Lenox Municipal Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

On June 10, 2010 a short-term note receivable was issued from the Electric Fund to the Communications Fund in the amount of \$175,000. Principal and interest accrued at the rate of 1.5% is payable from the Communications Fund to the Electric Fund on June 10, 2011. Interest receivable and payable between the funds amounted to \$ 1,467 at December 31, 2010.

LENOX MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2010

4. Property and equipment

Depreciation is provided using the straight-line method over the estimated economic useful lives of the respective assets.

	2010			
	Balance 1/1/10	Additions	Retirements & Disposals	Balance 12/31/10
<u>Electric Fund</u>				
Buildings and plants	\$ 1,906,771	\$ -	\$ -	\$ 1,906,771
Distribution system	1,572,984	-	-	1,572,984
Sub-station	98,653	-	-	98,653
Transmission lines	425,994	-	-	425,994
Total	4,004,402	-	-	4,004,402
Less: accumulated depreciation	(2,134,681)	(124,899)	-	(2,259,580)
Property and equipment - net	<u>\$ 1,869,721</u>	<u>\$ (124,899)</u>	<u>\$ -</u>	<u>\$ 1,744,822</u>
<u>Water Fund</u>				
Land	\$ 32,000	\$ -	\$ -	\$ 32,000
Buildings and plants	886,062	-	-	886,062
Distribution systems	1,724,397	-	-	1,724,397
Automotive equipment	58,936	-	-	58,936
Total	2,701,395	-	-	2,701,395
Less: accumulated depreciation	(1,342,343)	(89,719)	-	(1,432,062)
Property and equipment - net	<u>\$ 1,359,052</u>	<u>\$ (89,719)</u>	<u>\$ -</u>	<u>\$ 1,269,333</u>
<u>Communication Fund</u>				
Distribution systems	\$ 1,358,295	\$ 115,537	\$ -	\$ 1,473,832
Less: accumulated depreciation	(66,559)	(54,138)	-	(120,697)
Property and equipment - net	<u>\$ 1,291,736</u>	<u>\$ 61,399</u>	<u>\$ -</u>	<u>\$ 1,353,135</u>

	2009			
	Balance 1/1/09	Additions	Retirements & Disposals	Balance 12/31/09
<u>Electric Fund</u>				
Buildings and plants	\$ 1,906,771	\$ -	\$ -	\$ 1,906,771
Distribution system	1,572,984	-	-	1,572,984
Sub-station	98,653	-	-	98,653
Transmission lines	425,994	-	-	425,994
Total	4,004,402	-	-	4,004,402
Less: accumulated depreciation	(2,001,043)	(133,638)	-	(2,134,681)
Property and equipment - net	<u>\$ 2,003,359</u>	<u>\$ (133,638)</u>	<u>\$ -</u>	<u>\$ 1,869,721</u>

LENOX MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2010

4. Property and equipment - continued

<u>Water Fund</u>	Balance 1/1/09	Additions	Retirements & Disposals	Balance 12/31/09
Land	\$ 32,000	\$ -	\$ -	\$ 32,000
Buildings and plants	886,062	-	-	886,062
Distribution systems	1,724,397	-	-	1,724,397
Automotive equipment	58,936	-	-	58,936
Total	2,701,395	-	-	2,701,395
Less: accumulated depreciation	(1,252,521)	(89,822)	-	(1,342,343)
Property and equipment - net	<u>\$ 1,448,874</u>	<u>\$ (89,822)</u>	<u>\$ -</u>	<u>\$ 1,359,052</u>
<u>Communication Fund</u>	Balance 1/1/09	Additions	Retirements & Disposals	Balance 12/31/09
Distribution systems	\$ 1,099,833	\$ 258,462	\$ -	\$ 1,358,295
Less: accumulated depreciation	(18,927)	(47,632)	-	(66,559)
Property and equipment - net	<u>\$ 1,080,906</u>	<u>\$ 210,830</u>	<u>\$ -</u>	<u>\$ 1,291,736</u>

5. Pension and Retirement Benefits

Lenox Municipal Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute a percentage of their annual covered salary and Lenox Municipal Utilities is required to contribute a percentage of annual covered payroll expenditures. Contribution requirements and percentages are established by State statute. Lenox Municipal Utilities contribution to IPERS for the years ended December 31, 2010 and 2009 were \$43,865 and \$41,089, respectively, equal to the required contributions for each year.

6. Deferred Compensation

Lenox Municipal Utilities offer all full-time employees the option of participating in the ICMA Retirement Corporation's Deferred Compensation Plan. Under the plan, an employee may elect to have up to a maximum of 25% of compensation or \$15,000 a year, whichever is smaller, withheld and invested with ICMA. The salary of the employee that is deferred is not taxable for federal income tax purposes to the employee until retirement, but is taxable for social security and state income taxes and is included in determining IPERS contributions (see Note 5). The employer retains ownership of the fund until paid or made available to participants, subject only to the claims of the government's general creditors. A written contract exists with each plan participant and the Utilities responsibility is limited to the payment of the deferred compensation to the plan. For the years ended December 31, 2010 and 2009, employee contributions amounted to \$3,480 and \$3,855, respectively. The unfunded balance at December 31, 2010 and 2009 amounted to \$ -0- and \$ -0-, respectively.

LENOX MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2010

7. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Utilities annually adopt a budget on the "cash basis" following required public notice and hearing. Accordingly, budget to actual comparisons are presented on a non-GAAP budgetary basis in the accompanying financial statements. The adjustments necessary to reconcile the differences between the two methods of accounting are summarized as follows:

	<u>2010</u>			<u>Combined Memorandum Only</u>
	<u>Electric</u>	<u>Water</u>	<u>Cable</u>	
Changes in Net Assets				
- budgetary (cash basis)	\$ 162,250	\$ (29,713)	\$ (115,128)	\$ 17,409
Increase (decrease) in:				
Receivables	7,962	2,871	3,944	14,777
Accrued interest receivable	1,467	-	-	1,467
Prepaid expenses	3,153	(1,718)	(775)	660
Inventories	1,206	-	-	1,206
(Increase)/decrease in:				
Accounts payable	(6,231)	(1,255)	96,887	89,401
Accrued expenses	34	855	412	1,301
Other current liabilities	(369)	-	-	(369)
Changes in Net Assets				
- accrual (GAAP basis)	<u>\$ 169,472</u>	<u>\$ (28,960)</u>	<u>\$ (14,660)</u>	<u>\$ 125,852</u>
	<u>2009</u>			<u>Combined Memorandum Only</u>
	<u>Electric</u>	<u>Water</u>	<u>Cable</u>	
Changes in Net Assets				
- budgetary (cash basis)	\$(376,264)	\$ (73,004)	\$ 20,011	\$ (429,257)
Increase (decrease) in:				
Receivables	23,221	(2,449)	(11,437)	9,335
Prepaid expenses	2,448	963	307	3,718
Inventories	(13,827)	-	-	(13,827)
(Increase)/decrease in:				
Accounts payable	329,745	(554)	(126,906)	202,285
Accrued expenses	(3,516)	711	938	(1,867)
Other current liabilities	(5,958)	-	-	(5,958)
Changes in Net Assets				
- accrual (GAAP basis)	<u>\$(44,151)</u>	<u>\$ (74,333)</u>	<u>\$ (117,087)</u>	<u>\$ (235,571)</u>

LENOX MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2010

8. Electric Revenue Notes

In 2003, Lenox Municipal Utilities was the sub-recipient of a community development block grant issued to the City of Lenox, Iowa by the Iowa Department of Economic Development. The City of Lenox received CDGB funds in the amount of \$400,000. The City of Lenox entered into a construction and operation agreement and designated the Lenox Municipal Utilities a sub-recipient of the grant money to construct and operate a wind turbine for the benefit of the Lenox community. In conjunction with the construction of the wind turbine, Lenox Municipal Utilities was required to provide all funds in excess of the \$400,000 grant. Electric revenue notes were issued in the amount of \$515,000, to replace construction reserves for extension lines which were used in the construction of the wind turbine. The electric revenue notes dated May 1, 2003 were issued in \$5,000 denominations or multiples thereof, and mature on May 1 of each year. Interest on the notes are payable semi-annually on May 1 and November 1 of each year the notes are outstanding. Interest paid in 2010 and 2009 on the electric revenue notes amounted to \$7,869 and \$9,679, respectively.

Changes in long-term electric revenue notes are as follows:

		2010			
		Balance	Principal	Principal	Balance
		1/1/10	Additions	Repayments	12/31/10
Electric revenue notes		\$ 230,000	\$ -	\$ 55,000	\$ 175,000
		<u>\$ 230,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	<u>\$ 175,000</u>
		2009			
		Balance	Principal	Principal	Balance
		1/1/09	Additions	Repayments	12/31/09
Electric revenue notes		\$ 280,000	\$ -	\$ 50,000	\$ 230,000
		<u>\$ 280,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 230,000</u>

Principal and interest payments on the electric revenue notes mature as follows:

	Principal	Interest
2011	\$ 55,000	\$ 5,861
2012	60,000	3,645
2013	<u>60,000</u>	<u>1,230</u>
	<u>\$ 175,000</u>	<u>\$ 10,736</u>

The operating agreement provides that the City of Lenox shall repay Lenox Municipal Utilities for the contributions made by Lenox Municipal Utilities to purchase the wind turbine. The City also agreed to reimburse the Utility for amounts which will be adequate for the operation, maintenance, insurance, and long-term equipment repair and replacement cost of the wind turbine generator. The operating agreement is in effect for a period of 20 years from the effective date of the agreement. The agreement provides that at the time of termination of the agreement, the City of Lenox will assign all accompanying responsibilities for the wind turbine generator to Lenox Municipal Utilities.

LENOX MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2010

8. Electric Revenue Notes - continued

Note payments, sinking funds and related reserves are payable solely from the net revenues of the electric system. The notes are callable May 1, 2010.

Funds are restricted in conjunction with the issuance of electric revenue notes to assist with the construction and operation of a wind turbine. The electric reserve fund is funded by the gross revenues of the electric system and shall be used to maintain and operate the electric system, and after payment of the operating expenses shall, to the extent herein provided, be used to pay the principal and interest on the electric revenue notes and to create and maintain the electric revenue sinking fund. At December 31, 2010 and 2009, funds accumulated amounted to \$60,000 and \$60,000, respectively.

Electric revenue sinking fund payments are required on a monthly basis to be used solely for payment of principal and interest on the electric revenue notes. Note sinking payments are to be funded at no less than one-twelfth of the installment maturing each May 1. At December 31, 2010 and 2009, electric revenue sinking funds amounted to \$57,200 and \$51,000, respectively.

9. Water Revenue Bond, Series 2006

On October 6, 2006, Lenox Municipal Utilities issued water revenue bonds in the amount of \$1,150,000 with interest at the rate of 3 percent for the constructing of improvements and extensions to the water distribution system. Interest on the bonds is payable semi-annually on June 1 and December 1 of each year the notes are outstanding. Principal payments on the bonds commenced on June 1, 2008 and are due annually thereafter until paid in full. Interest paid in 2010 and 2009 on the 2006 water revenue bond amounted to \$28,485 and \$29,655, respectively.

Changes in long-term debt for the 2006 water revenue bonds are as follows:

2010			
	Balance 1/1/10	Principal Additions	Principal Repayments
2006 water revenue bonds	\$ 970,000	\$ -	\$ 41,000
	<u>\$ 970,000</u>	<u>\$ -</u>	<u>\$ 41,000</u>
			Balance 12/31/10
			\$ 929,000
			<u>\$ 929,000</u>

2009			
	Balance 1/1/09	Principal Additions	Principal Repayments
2006 water revenue bonds	\$ 1,007,000	\$ -	\$ 37,000
	<u>\$ 1,007,000</u>	<u>\$ -</u>	<u>\$ 37,000</u>
			Balance 12/31/09
			\$ 970,000
			<u>\$ 970,000</u>

Maturities of the Series 2006 bonds are as follows:

	Principal	Interest
2011	\$ 43,000	\$ 27,225
2012	44,000	25,920
2013	45,000	24,585
2014	47,000	23,205
2015	48,000	21,780
2016 - 2020	262,000	86,160
2021 - 2025	305,000	43,725
2026 - 2027	<u>135,000</u>	<u>4,065</u>
	<u>\$ 929,000</u>	<u>\$ 256,665</u>

LENOX MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2010

9. Water Revenue Bond, Series 2006 - continued

Funds are restricted in conjunction with the 2006 Water Revenue Bond. The reserve fund is to be transferred to the sinking fund whenever necessary to prevent or remedy a default in the payment of the principal and interest on the 2006 Water Revenue Bond. At December 31, 2010 and 2009, reserve funds amounted to \$73,000.

Bond sinking fund payments are required to be used solely for payment of principal and interest on the 2006 Water Revenue Bond. Bond sinking payments are to be funded at no less than one-twelfth of the installment maturing June 1 of each year. At December 31, 2010 and 2009, sinking funds amounted to \$52,515 and \$48,800, respectively.

10. Long-term Debt – Communication Fund

Lenox Municipal Utilities entered into a note payable on May 8, 2008 in the amount of \$1,335,000 for the purposes of paying the costs of constructing a Municipal Communications System. Interest is payable on May 1 and November 1 of each year until paid. The note bears interest at the rate of 3.50%. Debt service payments are payable solely from the net revenues of the communication system. The note matures May 1, 2011, and no principal is due on the note until May 1, 2011.

Changes in the long-term note payable are as follows:

2010			
	Balance 1/1/10	Principal Additions	Principal Repayments
Note payable – Iowa Finance	\$ 1,335,000	\$ -	\$ -
Authority – Series 2008	\$ 1,335,000	\$ -	\$ -
			Balance 12/31/10
			\$ 1,335,000

2009			
	Balance 1/1/09	Principal Additions	Principal Repayments
Note payable – Iowa Finance	\$ 1,335,000	\$ -	\$ -
Authority – Series 2008	\$ 1,335,000	\$ -	\$ -
			Balance 12/31/09
			\$ 1,335,000

Maturities of long-term debt are as follows:
2011

Principal	Interest
\$ 1,335,000	\$ 23,363
\$ 1,335,000	\$ 23,363

11. Net Assets

Net assets generally consist of the following three categories:

Net assets invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation, reduced by related outstanding notes, bonds, or other debt.

Restricted net assets – are net assets which result when constraints or restrictions are placed on the use of net assets. The restrictions are generally imposed by external lending sources or by law.

Unrestricted net assets - are those assets not meeting the definition of the two preceding categories. Reservations of unrestricted net assets may be imposed by the management of the Utility; however, reservations do not restrict net assets in any manner.

LENOX MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2010

12. Risk Management

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

13. Off Balance Sheet and Concentration of Credit Risk

Accounts receivables are due for electric, water and communication charges to customers of Lenox, Iowa and the surrounding community. None of the receivables are collateralized. To date, these concentrations of credit risk have not had an adverse effect on the results of operations of the Utilities.

DEAN M. BROICH, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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Omaha, Nebraska 68144
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Lenox Municipal Utilities
Lenox, Iowa

I have audited the financial statements of Lenox Municipal Utilities, a component unit of the City of Lenox, Iowa, as of and for the year ended December 31, 2010, and have issued my report thereon dated February 9, 2011. My report expressed an unqualified opinion on the financial statements, which were prepared by me in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Lenox Municipal Utility's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lenox Municipal Utility's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Lenox Municipal Utility's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses would be identified. However, as discussed in the accompanying Schedule of Findings, I identified deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a significant deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility a material misstatement of Lenox Municipal Utility's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Findings to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lenox Municipal Utility's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Lenox Municipal Utilities operations for the year ended December 31, 2010 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of Lenox Municipal Utilities. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Lenox Municipal Utility's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on Lenox Municipal Utility's responses, I did not audit the Lenox Municipal Utility's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management and employees, and other parties to which the Lenox Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the courtesies and assistance extended to me during the audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you.



Certified Public Accountant

Omaha, Nebraska
February 9, 2011

LENOX MUNICIPAL UTILITIES
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2010

Findings Related to the Financial Statements:

Reportable conditions:

- A. Segregation of duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee can act as a check on those of another. Essentially one individual currently has total access and control of the accounting functions, including customer billings, receipts, disbursements, as well as the related reconciliations for the various accounting and reporting functions.

Recommendation - While segregation of duties is difficult with a limited number of office employees, management should continue to regularly review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel and Utility officials.

Response - Based on monthly reviews of internally prepared financial statements, approval of all payments prior to signatures and overall supervision by the superintendent and the Board, there appear to be sufficient compensating controls. A full time employee has been hired to assist in the billing and collection cycles.

Conclusion - Response accepted.

- B. Facsimile signature stamps - Facsimile signature stamps are used to facilitate payment of vouchers. Without proper controls or retention of the stamps internal control, unauthorized use of the stamps on disbursements or other documents could occur.

Recommendation - Eliminate the stamps or provide adequate controls against their unauthorized use.

Response - The stamps are retained by office personnel, locked in the Utilities safe, and are only used by the respective board member for check signing purposes. All other documents are signed manually. Also, all vouchers are approved prior to payment by the Board of Trustees and bank reconciliations are prepared monthly.

Conclusion - Response accepted.

Instances on non-compliance:

No matters were noted.

LENOX MUNICIPAL UTILITIES
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2010

Other Findings Related to Required Statutory Reporting:

1. Certified budget – Expenditures for the year ended December 31, 2010 exceeded amounts budgeted Chapter 384.20 of the Code of Iowa states in part, “public monies may not be expended or encumbered except under an annual or continuing appropriation”. Accordingly, the budget should have been amended before amounts expended exceeded budgeted amounts.
2. Questionable disbursements – No disbursements were noted that did not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
3. Travel expenses - No disbursements of the Lenox Municipal Utilities money for travel expenses of spouses of Utility officials or employees were noted.
4. Business transactions - All business transactions noted between the Utilities and Utility officials appeared to be in the normal course of business and appeared to be at arm’s length.
5. Bond coverage - Surety bond coverage of the Utilities officials and employees is in accordance with statutory provisions. The amount of the coverage should continue to be reviewed annually, or more often if needed, to ensure that the coverage is adequate for current operations.
6. Board minutes – No transactions were noted that were required to have been approved in the minutes but were not.
7. Deposits and investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities’ investment policies were noted.
8. Revenue notes, bonds and long-term debt – No violations of the revenue notes, bonds or long-term debt were noted.
9. Telecommunication services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.